.

QUARTERLY REPORT #2

Report Period: January 1 – March 31, 2013

SCALING HIGH-IMPACT INNOVATIONS OF SOCIAL ENTREPRENEURS

Mercy Corps Contact		Project Summary	
Name	Carol Skowron	Award No.	AID-OAA-A-12-00044
Title	Sr. Program Officer	Start Date	Sept. 17, 2012
Address	45 SW Ankeny Street	End Date	Sept. 16, 2017
	Portland, OR 97204	Report Date	April 30, 2013
Phone	503.896.5861	Total Award	$20,451,617
Email	cskowron@field.mercycorps.org		

Table of Contents

List of Acronyms and Abbreviations

AOR   Agreement Officer's Representative
AMP   Award Monitoring Plan
DIV   Development Innovations Ventures
IEE   Initial Environmental Examination
ION   Investment Opportunity Note
IRM   Investment Recommendation Memo
MC   Mercy Corps
MM   Mission Measurement
PMP   Performance Monitoring Plan
Skoll   Skoll Foundation
USAID   United States Agency for International Development

I.   Executive Summary

In this quarter, Mercy Corps completed several partnership guiding documents and launched the investigation of the first prospective recipient organizations to fund under the alliance. The objectives and measurable results of the partnership were framed with a results framework created by Mission Measurement. Mercy Corps completed a due diligence rubric and other tools to assess organizations for funding. At the request of USAID we accelerated the process in order issue a subgrant agreement by the first week in April. In this round Mercy Corps considered organizations already funded by Skoll, thus not requiring additional approval from their board.

Two organizations were investigated and at the close of the quarter, an agreement was about to be signed with one of them. The first organization to be funded, Imazon, plans to scale up the Green Municipalities program to reduce deforestation in Brazil. A second organization, Forest Trends, was considered but not funded in this round due to questions around the fit of their proposed project with the partnership objectives and requirements.

Mercy Corps will obtain feedback on the process for selection and funding of subrecipient organizations that was used in this round and review and refine the strategy and process for selection of additional recipient organizations.

II.   Program Overview

The Scaling High-Impact Innovations of Social Entrepreneurs is an alliance between the Skoll Foundation (Skoll) and USAID, to co-invest $40 million in cutting-edge, rigorously-evaluated innovations that are ready to scale, have sustainable models and can produce systems-level change. As an implementing partner, Mercy Corps screens, investigates, evaluates and proposes high-potential candidates; provides selected subrecipients with funding; and manages implementation on behalf of USAID for their portion of this program. Mercy Corps works closely with Skoll to ensure alignment between the parties.

Mercy Corps contracted with Mission Measurement (MM) to perform much of the work related to monitoring and evaluation (M&E) as part of the program. Mission Measurement developed an aggregate results framework for measuring progress and activities across the portfolio of investments and creating evaluation rubrics for the monitoring and evaluation components of the program, including the adaptation of their scale tool. As we source and evaluate organizations, MM will analyze their prior evaluations and cost-effectiveness, provide support to the organizations to develop M&E plans, and track progress and report out on monitoring and evaluation during the implementation stage.

The goal of the overall alliance is that ***high-impact, sustainable innovations proven to produce systems-level change in the developing world are showcased and brought to scale, in conjunction with the alliance partners***.

Two strategic objectives have been proposed for Mercy Corps' work under the alliance:
1. Alliance effectively leverages partners' resources and expertise to more powerfully support organizations at critical points for scale and transformational impact
2. Social innovations provide and share meaningful data that demonstrate the impact of their approach as well as measure the value and impact of the investment alliance as a whole.

Program Environment
Although much of the process and supporting documents to screen and award subgrants had been developed at the end of Quarter 1, Mercy Corps had not received feedback or approval from USAID on all of them by the end of the quarter. Rather than waiting until they had been finalized to begin to apply them to the application process with a prospective subrecipient organization, Mercy Corps was asked to begin the sourcing and evaluation of organizations without a finalized process and use that opportunity to test and refine the existing tools and processes. This was in part motivated by the fact that USAID was invited to attend the Skoll World Forum in April, and saw this as an important opportunity to showcase the partnership. USAID management felt that it was important to have organizations funded by that deadline to show progress in the partnership, and urged the partners to expedite applicant development and review to achieve funding prior to the Forum.

III.   Performance Summary

Based on goals laid out in the cooperative agreement, success under this program will be measured on three levels:
1. Mercy Corps' management of the partnership activities and USAID's funds distributed to recipient organizations as described in the Award Monitoring Plan (AMP).
2. Aggregate program results across all recipient organizations, which will be measured using the Results Framework. This information will be collected and reported semi-annually.
3. Individual recipient organizations will report against their own Performance Monitoring Plan (PMP), reported quarterly.

In this quarter, no subgrant agreements were signed with recipient organizations and no results will be reported for #2 and #3 above in this report. For #1, Mercy Corps' began review of two organizations for possible funding.

Selection and Due Diligence of Prospective Organizations

On February 12, Mercy Corps was asked to expedite the selection, due diligence and application development process in order to have signed subagreements by the second week in April, in place for the announcement of an award at the Skoll World Forum. Mercy Corps worked intensively with Mission Measurement, USAID and Skoll to meet this deadline. The evaluation of Imazon, which had been identified as a possible investment was intensified and introductory conversations with other organizations were held the third week in February to determine an appropriate second investment. A strict schedule of activities was made in order to reach a final application in approximately four weeks' time.

Mission Measurement was tasked under their existing contract to evaluate cost effectiveness, review existing evidence of impact, evaluate Imazon against the M&E Due Diligence Rubric, assess the ability of the organization to measure results through data collection and to recommend additional technical assistance. Mission Measurement also worked with several outside evaluation experts to consider the best approach to measuring impact and to create a basic design of what that evaluation might look like.

Mercy Corps received permission from USAID to amend some components of the application and process to ensure that a signature could be secured on the award prior to the deadline. These included permission to skip the convening of the Investment Committee, although approval was separately given from both USAID and Skoll, and to finalize details of the M&E plan and branding and marking plan post-signing. Mercy Corps was also asked to plan to contract with an external evaluator to support the design of an evaluation plan. The evaluator would also be selected post-signing.

IMAZON
Imazon had been identified as a compelling investment in Quarter 1 and Mercy Corps had begun an initial investigation of this organization. As a result of the new deadline, the process was expedited, with full cooperation from the Imazon team. Their executives radically revised their schedules to free up time to respond to our due diligence inquiries and develop their application. A critical advantage of the investment was that they had a need for financing that was very complementary to the program activities funding by Skoll, meaning that we could leverage the programmatic due diligence already performed by Skoll. Imazon's staff and corporate culture contributed to the development of a strong program with clear outcomes that was pulled together in a very tight timeframe.

Mercy Corps worked closely with Imazon to develop a compelling program for funding. Mercy Corps followed the process that had been developed earlier: writing an Investment Opportunity Note, using the application template, evaluating the program using the evaluation rubric, and submitting an Investment Recommendation Memo.

Throughout the process, Mercy Corps stayed in close contact with the AOR, the M&E Advisory Committee, the USAID Management Committee and Skoll to determine potential roadblocks to approval and ensure that decision-making was transparent and

coordinated. Mercy Corps was particularly focused on developing an application with Imazon that would meet the funding requirements of USAID/DIV. The application itself was redrafted multiple times to include additional information as requested by USAID, and a final version was completed and submitted to USAID for approval at the end of the quarter.

The application and program description were officially submitted twice—once in a draft form and again in a final form. USAID requested input from technical teams, as well as from the Management Committee, Maura O'Neill, and others at a draft stage. Initial feedback was that Imazon had created a strong program that met the criteria for funding and would satisfy both partners, although there were outstanding questions related to the plan to scale and evaluation methodology. These points were addressed for the final submission, which went to the USAID management committee and other key decision-makers within USAID and was the final programmatic sign-off before official approval of the subgrant agreement. Skoll concurred that the program was very strong, complemented their investment in Imazon and reflected their priorities in the deforestation space. As of the end of the quarter, it was expected that a final subaward would approved by USAID the first week of April.

Evaluation became a central issue to the ability to fund this organization. USAID requested that we identify an evaluation methodology with the submission of the application and also requested that Imazon commit in writing their intention to cooperate with the evaluators as criteria to approve funding. Preference was weighted towards the most 'rigorous' types of evaluations, and Mercy Corps and Mission Measurement worked with Imazon to determine what level of evaluation rigor matched with operational realities. Working with a series of academics, we explored the possibility of multiple methodologies, eventually settling on a new method involving an approach called "synthetic controls" as the most applicable to this project given the operational realities and requirements of rigor. While our first assessment indicated this evaluation approach is feasible, this needs to be further determined when an external evaluator is formally contracted.

FOREST TRENDS
A second organization, Forest Trends, was considered for funding this quarter at the recommendation of USAID. Mercy Corps conducted an initial screening, which showed the potential to meet funding criteria and a due diligence process was started. After additional information was obtained through discussions with Forest Trends, it became clear that the funding needs were not a good fit for the parameters of this fund at this point in time. Mercy Corps recommended a freeze on moving forward with this organization at this time and USAID agreed that this was appropriate.

List of Tools and Documents Developed.

1. Roles and Responsibilities for Recipient Organization Selection: Table describing roles of Mercy Corps, Mission Measurement and the Grantee during the Screening process, Due Diligence stage and in preparation of the subaward.
2. Results Framework and Aggregate Metrics: Framework developed by Mission Measurement to measure aggregate impact of the Alliance.
3. Definitions for Aggregate Metrics:
4. Findings From Stakeholder Engagement: Report out on interviews with stakeholders which helped to define partnership
5. Evaluation Rubric: Rubric created for analysis of applications for funding to determine if the application meets minimum requirements
6. Engagement Process: table describing steps in the process and roles
7. Scale tool: Tool created by Mission Measurement, subsequently folded into evaluation rubric
8. Investment Opportunity Note: summary of basic information about the proposed investment written by Mercy Corps and submitted to USAID
9. Investment Recommendation Memo: document written by Mercy Corps and Mission Measurement and submitted to USAID during the early stages of the
10. Application: Revised version of the application required from the subrecipient organizations

Subaward Recipients
By the end of the quarter, no subaward recipients had signed a subaward agreement, although Imazon signed an agreement shortly after the beginning of the next quarter. Information on Imazon's progress against objectives will be provided in the next report.

Mission Measurement:
Mission Measurement completed work on Results Framework and contributed greatly to the evaluation rubric. Once Imazon was identified as potential recipient organization, Mission Measurement was tasked with evaluating prior impact, cost effectiveness and assisting with the development of an external evaluation plan.

From an M&E perspective, the alliance should expect that future grantees will struggle to submit applications with the depth of information provided in the Imazon case. Because Imazon's model is centered on data monitoring, management, and analysis, the grantee's team was able to easily provide information about its prior impact, plan for a low cost impact evaluation, and provide details around performance monitoring. A prioritization of M&E criteria and mapping of these criteria to distinct phases in grantee approval and development will help to grow the pipeline of high-impact organizations capable of being successful in the alliance's application process.

Expectations for next quarter
The review of Imazon and the decision to award funds to them was the first investment and the first use of the process and was done with the understanding that we would review the experience and use lessons to refine our understanding of the target investment and the process. Mercy Corps has recommended that we meet with staff from

both partner organizations to conduct this review before making additional investments. We are planning to gather staff from USAID, Mercy Corps and Skoll to review the process as it was applied in Imazon's application, identify roadblocks and map out a way forward with future investments. The results of this working meeting will be included in the next report. Mercy Corps is also scheduling a Steering Committee meeting for next quarter for guidance at the strategic level.

In Quarter 3, Mercy Corps will also begin reviewing additional investments with the goal of financing two for the next round. Given that programs will be developed and evaluated in conjunction with Skoll and without the advantage of their prior due diligence, we will aim to have these complete in late Q3 with the goal of having recipients approved by the time that the Skoll board meets in October.

IV.   Management and Administration

Subaward Agreement Template: Mercy Corps created a subaward agreement template based on USAID compliance requirements, to be used when creating subaward agreements with recipient organizations. The template was modified to include mention of milestones and was approved by USAID.

Communications Committee: This group convened regularly and developed a program messaging, a program name, and a one-pager, all of which were approved by Skoll and USAID. They also developed a press release for the first award to be released at the Skoll World Forum.

Weekly Tracker: Mercy Corps developed a weekly tracker to share achievements from the week and upcoming priorities. This was distributed to key people within USAID, Skoll, Mercy Corps and Mission Measurement and used to transparently show progress and priorities.

Monitoring and Evaluation Committee: Convened weekly to review the Imazon application.

Management Committee: Regular meetings were weekly, but often cancelled due to competing priorities.

Steering Committee: No meetings held this quarter.

USAID and Skoll Check-ins: Mercy Corps is in frequent contact with both partners to receive guidance and to ensure open communications.

Mission Measurement: Mercy Corps has scheduled a weekly check in with Mission Measurement to discuss developments and ensure progress toward goals.

V.   Challenges and Lessons Learned

Challenges:

The development of Imazon's application was very intensive and was completed in approximately a one month period. This schedule required the full attention of Mercy Corps staff dedicated to this project and considerable input from Mission Measurement staff, several Skoll staff, and several USAID staff. The subrecipient organization struggled to meet the demands of developing the application and responding to various due diligence requests in the time allotted. This challenging pace is unsustainable over the long run from a management and financial perspective, and unrealistic for most sub-recipient organizations to manage and respond to.

Although the process had been previously documented and shared with USAID, when it came time to begin screening and conducting due diligence on the prospective subrecipients, the process and all related documents had not been finally approved, reviewed, or discussed. As we implemented the process with Imazon, there were many steps along the way in which additional information was requested outside of our proposed scope and it was clear that there was a misalignment between expectations between Mercy Corps and USAID regarding what information would be produced at what time. Moreover, there was considerable direct input by many different USAID staff to meet standards that were ill-defined. The subaward that was created sufficiently satisfied the stakeholders, but this was largely due to "compromises" from various teams to meet the imposed deadline. In the future, definitions and minimum standards to fund must be more clearly delineated for applicants and the input from USAID must be consolidated and the process made more efficient.

This also holds true for best use of Mission Measurement's services. In the Due Diligence and application development phase for Imazon, Mission Measurement allocated hours to the project far beyond the Level of Effort for which they were compensated. In order to ensure success moving forward, it will be useful to review the applicant approval process and have a clear prioritization of grantee M&E requirements from USAID. A clearer distinction of the phases and processes will allow Mission Measurement to reallocate the firm's Level of Effort to its best use. Likewise, prior to engaging new organizations in due diligence, it will be useful to have a clear understanding of what characteristics of M&E and cost-effectiveness will qualify and disqualify applicants for USAID funding. In addition to clarifying Mission Measurement priorities, this will increase Skoll Foundation's ability to contribute existing information to the process in a focused way.

USAID's standards for funding rely heavily on prior and future evaluation. During the screening and application process this quarter, Mercy Corps was advised by USAID that rigorous outside evaluation was required for the project to be funded and that Mercy Corps should contract with an evaluator to perform a rigorous evaluation on the program. USAID has agreed that funds from our existing cooperative agreement could be used for hiring outside evaluators. Using funds for this purpose will reduce the amount of money available to subrecipient organizations to conduct their programs. Mercy Corps has not

received a clear understanding of when additional evaluation will be required, what the guidelines are as to when to bring in and outside evaluator and what level of funding for evaluation is acceptable.

VI.   Conclusions

Although there were numerous challenges associated with the process and much work to be done to refine and clarify expectations and activities, Mercy Corps is deeply encouraged by the quality of the first subrecipient organization that was selected, Imazon and the strength of the pool of entrepreneurs. We anticipate that many more strong programs will emerge from the partnership and that the scale and impact goals of the partnership will be met through investments in quality subrecipient organizations.